

POCAHONTAS COMMUNITY HOSPITAL

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

POCAHONTAS COMMUNITY HOSPITAL

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POCAHONTAS COMMUNITY HOSPITAL
Officials
June 30, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
Richard Gruber	Mayor	December, 2017
Brian Stover	Member	December, 2019
John DeWall	Member	December, 2017
Brooke McCartan	Member	December, 2017
Rod Stoullil	Member	December, 2017
Wes Beneke	Member	December, 2019
Jeffrey A. Johnson	City Treasurer	Appointed Annually
HOSPITAL BOARD OF TRUSTEES		
Rick Winegarden	President	December, 2019
Greg White	Vice-President	December, 2017
Jody Lyon	Secretary-Treasurer	December, 2017
Don Beneke	Member	December, 2019
Kim Wood	Member	December, 2019
HOSPITAL OFFICIALS		
James Roetman	Chief Executive Officer	
Lynne Raveling	Chief Financial Officer	
Susie Aden	Director of Patient Care	
Jenny Benna	Director of Outpatient Services	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pocahontas Community Hospital
Pocahontas, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Pocahontas Community Hospital as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Pocahontas Community Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2016 and 2015, and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of Hospital Contributions (and the related notes) on pages 3 through 3d and on pages 25 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pocahontas Community Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2014 (which are not presented herein) and expressed opinions (qualified for 2014 and 2013 and unmodified for 2012) on those financial statements. The supplementary information on pages 1 and 29 through 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Pocahontas Community Hospital

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of Hospital Contributions (and the related notes) on pages 3 through 3d and on pages 25 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2016 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Pocahontas Community Hospital's internal control over financial reporting and compliance.

Gronewold, Bell, Kyhura + Co. P.C.
Atlantic, Iowa
August 19, 2016



**Pocahontas Community Hospital
Management's Discussion and Analysis**

Our discussion and analysis of Pocahontas Community Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2016, 2015, and 2014. Please read it in conjunction with the Hospital's financial statements.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased in 2016 and 2015 with a \$108,859 or 2.1% decrease in 2016 and a \$322,056 or 5.9% decrease in 2015. See 3a for explanation of July 1, 2014 decrease.

The Hospital reported an operating loss of \$270,780 in 2016 and \$239,523 in 2015.

Non-operating revenues, net increased by \$244,045 in 2016 as a result of a \$224,388 increase in gifts, grants and bequests. The nonoperating revenues, net increased by \$5,885 in 2015.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

**THE STATEMENTS OF NET POSITION AND STATEMENTS OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION**

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between the combined assets and deferred outflows of resources and the combined liabilities and deferred inflows of resources - is one way to measure the Hospital's financial health, or financial position. Other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors need to be considered in assessing the overall health of the Hospital.

THE STATEMENTS OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and combined liabilities and deferred inflows of resources reported in the Statement of Net Position on page 4 as you can see from Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated 2014</u>
Assets:			
Current assets	\$ 2,704,907	\$ 3,259,625	\$ 3,421,808
Capital assets, net	8,387,807	9,126,248	9,991,495
Other assets, net	190,493	467,287	180,466
Deferred outflows of resources	<u>436,740</u>	<u>421,623</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 11,719,947</u>	<u>\$ 13,274,783</u>	<u>\$ 13,593,769</u>
Liabilities:			
Long-term liabilities, net	\$ 5,174,367	\$ 5,534,842	\$ 3,835,212
Other current and noncurrent liabilities	1,276,065	1,847,279	1,837,552
Deferred inflows of resources	<u>251,144</u>	<u>765,432</u>	<u>--</u>
Total liabilities and deferred inflows of resources	6,701,576	8,147,553	5,672,764
Net Position	<u>5,018,371</u>	<u>5,127,230</u>	<u>7,921,005</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,719,947</u>	<u>\$ 13,274,783</u>	<u>\$ 13,593,769</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2016, the Hospital's net position decreased by \$108,859 or 2.1%, as shown in Table 2. This compares with the 5.9% decrease in net position of \$322,056 for 2015.

Net patient service revenue increased \$61,622 or 0.6% in 2016 compared to an increase of \$292,698 or 3.1% in 2015.

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Hospital's pension costs during the 2014-15 year. The requirement resulted in significant changes to: net position (\$2,471,719 decrease), long-term liabilities (\$2,767,832 increase), and created a deferred outflow of resources (\$296,113) as of July 1, 2014. Although the Hospital's financial statement reporting has changed significantly, the requirement will have no effect on the Hospital's actual operations.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated</u> <u>2014</u>
Operating Revenues:			
Net patient service revenues	\$ 9,806,789	\$ 9,745,167	\$ 9,452,469
Other operating revenues	<u>154,195</u>	<u>188,332</u>	<u>182,523</u>
Total operating revenues	9,960,984	9,933,499	9,634,992
Operating Expenses:			
Nursing service	1,896,973	1,883,923	1,758,004
Other professional service	4,270,009	4,230,075	4,119,253
General service	773,412	784,831	824,900
Fiscal and administrative service	2,337,422	2,143,190	2,188,841
Provision for depreciation	<u>953,948</u>	<u>1,131,003</u>	<u>1,187,665</u>
Total operating expenses	<u>10,231,764</u>	<u>10,173,022</u>	<u>10,078,663</u>
Operating loss	(270,780)	(239,523)	(443,671)
Non-Operating Revenues (Expenses):			
Noncapital gifts, grants and bequests	258,112	33,724	53,981
Investment income	2,260	3,686	3,242
Ambulance subsidy	7,807	7,436	7,436
Interest expense	(120,982)	(151,670)	(164,433)
Clinic operations, net	(1,267)	--	(1,053)
Loss on disposal of equipment	<u>1,291</u>	<u>10,000</u>	<u>(1,882)</u>
Non-operating revenues (expenses), net	<u>147,221</u>	<u>(96,824)</u>	<u>(102,709)</u>
Excess of Expenses Over Revenues Before Capital Grants and Contributions	(123,559)	(336,347)	(546,380)
Capital Grants and Contributions	<u>14,700</u>	<u>14,291</u>	<u>12,265</u>
Decrease in Net Position	(108,859)	(322,056)	(534,115)
Net Position Beginning of Year as Restated in 2015	<u>5,127,230</u>	<u>5,449,286</u>	<u>8,455,120</u>
Net Position End of Year	<u>\$ 5,018,371</u>	<u>\$ 5,127,230</u>	<u>\$ 7,921,005</u>

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

OPERATING LOSS

The first component of the overall change in the Hospital's net position is its operating loss, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operating loss changed from an operating loss of \$239,523 in 2015 to an operating loss of \$270,780 in 2016.

The primary components of this increase in operating loss are:

Although net patient revenue increased \$61,622 due in part to a 3% decrease in the contractual adjustment amount and a 19% reduction in allowance for bad debt, other revenue decreased \$34,138 or 18% from the prior year. Operating expenses increased 0.6% or \$58,742 overall from the prior year which included a 10% increase in employee benefits.

Depreciation expense was \$953,948 in 2016 compared to \$1,131,003 in 2015 a 15.7% decrease

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of contributions, interest revenue and investment earnings and a county subsidy for providing ambulance services. Interest revenue decreased from \$3,686 in 2015 to \$2,260 in 2016. This slight decrease in interest income reflects a decreased cash flow and increase in cash in interest bearing accounts.

The major nonoperating expense is interest on debt. Interest expense decreased by \$30,688 in 2016.

GRANTS AND CONTRIBUTIONS

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation conducts an annual campaign to raise funds for specified equipment for the hospital. The Foundation is also the conduit for the funds from the annual Hospice fund drive.

The Pocahontas Community Hospital Auxiliary was formed for the purpose of supporting the hospital mission. The Auxiliary participates in activities throughout the year to raise funds. The Auxiliary funds various needs of the hospital.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating revenues and nonoperating revenues and expenses as discussed earlier.

BUDGETARY HIGHLIGHTS

The official budget of the Hospital for the year ended June 30, 2016 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$2,395,987 due to lower than expected patient services costs, related supply costs and contracted services costs.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2016, the Hospital had \$22,190 invested in non-depreciable capital assets. In 2016, the Hospital purchased new equipment costing \$228,217 including computer equipment, EMS equipment, nursing equipment, respiratory equipment and a new ambulance.

Debt:

At year-end, the Hospital had \$3,104,115 in debt outstanding. The debt included a non-interest bearing note through the City of Pocahontas (who received a \$360,000 USDA grant as funding) and a \$4,000,000 promissory note for the recent construction project. At year end, the outstanding balances on the loans were \$158,570 and \$2,945,545 respectively.

OTHER ECONOMIC FACTORS

The number of patients with some form of insurance has increased, however the deductibles and out of pocket maximum expenses on insurance policies have also risen, leaving insured patients with larger self-pay balances than in previous years. Increased premiums forced some patients to either raise deductibles even higher or drop their insurance altogether because they are no longer able to afford it. However, though many may qualify for financial assistance, even though they are insured, the return rate for completed financial assistance applications continues to be low.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Pocahontas Community Hospital, 606 NW 7th St., Pocahontas, Iowa 50574.

POCAHONTAS COMMUNITY HOSPITAL
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 1,006,059	\$ 1,481,835
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$329,000 in 2016, \$335,000 in 2015)	1,196,869	1,294,289
Other receivables	523	2,375
Inventory	105,348	105,284
Prepaid expense	142,798	125,716
Internally designated assets	<u>253,310</u>	<u>250,126</u>
Total current assets	2,704,907	3,259,625
Designated and Restricted Assets:		
Internally designated assets	253,310	599,462
Less amounts required to meet current liabilities	<u>253,310</u>	<u>250,126</u>
	--	349,336
Capital Assets:		
Depreciable capital assets, net	8,365,617	9,104,058
Non-depreciable capital assets	<u>22,190</u>	<u>22,190</u>
	8,387,807	9,126,248
Other Assets	<u>190,493</u>	<u>117,951</u>
Total assets	11,283,207	12,853,160
Deferred Outflows of Resources - Pension	<u>436,740</u>	<u>421,623</u>
Total assets and deferred outflows of resources	<u>\$ 11,719,947</u>	<u>\$ 13,274,783</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 293,919	\$ 250,126
Accounts payable	200,864	168,384
Accrued employee compensation	364,212	341,358
Other accrued expenses	110,401	100,411
Accrued interest	7,669	--
Estimated third-party payor settlements	299,000	987,000
Total current liabilities	<u>1,276,065</u>	<u>1,847,279</u>
Long-Term Liabilities:		
Long-term debt, less current maturities	2,810,196	3,567,147
Net pension liability	<u>2,364,171</u>	<u>1,967,695</u>
Total long-term liabilities	<u>5,174,367</u>	<u>5,534,842</u>
Total liabilities	6,450,432	7,382,121
Deferred Inflow of Resources - Pension	251,144	765,432
Net Position:		
Invested in capital assets, net of related debt	5,283,692	5,308,975
Unrestricted	<u>(265,321)</u>	<u>(181,745)</u>
Total net position	<u>5,018,371</u>	<u>5,127,230</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 11,719,947</u>	 <u>\$ 13,274,783</u>

POCAHONTAS COMMUNITY HOSPITAL
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Revenue:		
Net patient service revenue	\$ 9,806,789	\$ 9,745,167
Other revenue	<u>154,195</u>	<u>188,332</u>
Total revenue	9,960,984	9,933,499
Expenses:		
Nursing service	1,896,973	1,883,923
Other professional service	4,270,009	4,230,075
General service	773,412	784,831
Fiscal and administrative service	2,337,422	2,143,190
Provision for depreciation	<u>953,948</u>	<u>1,131,003</u>
Total expenses	<u>10,231,764</u>	<u>10,173,022</u>
Operating Loss	(270,780)	(239,523)
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	258,112	33,724
Investment income	2,260	3,686
Ambulance subsidy	7,807	7,436
Interest expense	(120,982)	(151,670)
Clinic operations, net	(1,267)	--
Gain on disposal of equipment	<u>1,291</u>	<u>10,000</u>
Non-operating expenses, net	<u>147,221</u>	<u>(96,824)</u>
Excess of Expenses Over Revenues Before Capital Grants and Contributions	(123,559)	(336,347)
Restricted Revenue:		
Capital grants and contributions	<u>14,700</u>	<u>14,291</u>
Decrease in Net Position	(108,859)	(322,056)
Net Position Beginning of Year	<u>5,127,230</u>	<u>5,449,286</u>
Net Position End of Year	<u>\$ 5,018,371</u>	<u>\$ 5,127,230</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 9,218,061	\$ 9,989,342
Cash paid to suppliers	(5,584,779)	(5,713,752)
Cash paid to employees	(3,719,991)	(3,487,558)
Other operating revenue	<u>154,195</u>	<u>188,332</u>
Net cash provided by operating activities	67,486	976,364
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	250,237	21,606
Ambulance subsidy	<u>7,807</u>	<u>7,436</u>
Net cash provided by non-capital financing activities	258,044	29,042
Cash flows from capital and related financing activities:		
Capital expenditures	(228,217)	(368,933)
Proceeds from disposal of assets	14,001	10,000
Capital grants and contributions	14,700	14,291
Principal paid on long-term debt	(713,158)	(312,424)
Interest paid	<u>(105,438)</u>	<u>(139,552)</u>
Net cash used in capital and related financing activities	(1,018,112)	(796,618)
Cash flows from investing activities:		
Change in designated and restricted assets	400,234	(13,356)
Investment income	2,260	3,686
Clinic operations, net	(1,267)	--
Other asset changes	<u>(130,339)</u>	<u>(21,887)</u>
Net cash provided by (used in) investing activities	270,888	(31,557)
Net increase (decrease) in cash and cash equivalents	(421,694)	177,231
Cash and cash equivalents beginning of year	<u>1,681,063</u>	<u>1,503,832</u>
Cash and cash equivalents end of year	<u>\$ 1,259,369</u>	<u>\$ 1,681,063</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,006,059	\$ 1,481,835
Cash and cash equivalents in designated and restricted assets	<u>253,310</u>	<u>199,228</u>
Total cash and cash equivalents	<u>\$ 1,259,369</u>	<u>\$ 1,681,063</u>

(continued next page)

POCAHONTAS COMMUNITY HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(270,780)	\$(239,523)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	953,948	1,131,003
Amortization	57,797	14,133
Change in assets, liabilities, and deferred resources		
Accounts receivable	99,272	95,175
Inventory	(64)	2,844
Prepaid expense	(17,082)	(24,316)
Deferred outflows of resources	(15,117)	(125,510)
Accounts payable - trade	32,480	(32,636)
Accrued employee compensation	22,854	31,168
Other accrued expenses	9,990	9,731
Estimated third-party payor settlements	(688,000)	149,000
Net pension liability	396,476	(800,137)
Deferred inflows of resources	(514,288)	765,432
Total adjustments	<u>338,266</u>	<u>1,215,887</u>
Net cash provided by operating activities	<u>\$ 67,486</u>	<u>\$ 976,364</u>

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2016</u>	<u>2015</u>
Interest imputed on loans and recorded as a gift	<u>\$ 7,875</u>	<u>\$ 12,118</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization includes a 25 bed critical access acute care municipal hospital with related healthcare ancillary and outpatient services. Pocahontas Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa; accordingly, it is a political subdivision of the State of Iowa and is therefore exempt from federal and state income taxes. It is governed by a five member board of trustees, elected for four year terms. In addition, the City Treasurer is considered to be a Co-Treasurer of the Board. The Hospital, a component unit of the City of Pocahontas, has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Pocahontas Community Healthcare Foundation (Foundation) has been identified as a legally separate component unit of the Hospital. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital. However, the net assets of the Foundation (Note J) are not significant enough to require discrete presentation in these financial statements.

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining an allowance for doubtful accounts and for contractual adjustments.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for capital acquisitions and related debt payments. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest cost in 2016 or 2015.

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Hospital after the measurement date but before the end of the Hospital's reporting period.

13. Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, and sick time benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

15. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

16. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

17. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

19. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries.

Medicaid - Through March of 2016 the Medicaid payment system was similar to Medicare. In April the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. The Hospital will continue to file cost reports to determine payment rates for future years.

The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2014. The Medicaid cost reports have been finalized through June 30, 2013. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

A schedule of patient service revenue and related adjustments for the years ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 1,178,905	\$ 1,710,699
Outpatient	<u>11,141,778</u>	<u>10,668,382</u>
Total gross patient service revenue	12,320,683	12,379,081
Deductions from gross patient service revenue:		
Medicare	602,003	852,313
Medicaid	576,051	446,687
Provision for bad debts	209,873	258,475
Charity care	13,681	6,062
Other deductions	<u>1,112,286</u>	<u>1,070,377</u>
Total deductions from gross patient service revenue	<u>2,513,894</u>	<u>2,633,914</u>
Net patient service revenue	<u>\$ 9,806,789</u>	<u>\$ 9,745,167</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE C - DONOR RESTRICTIONS RELEASED

Restricted assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2016</u>	<u>2015</u>
Capital items	\$ <u>14,700</u>	\$ <u>26,556</u>

NOTE D - DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2016</u>	<u>2015</u>
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	\$ 253,310	\$ 199,228
Interest receivable	--	234
Hospital designated endowments:		
Certificates of deposit	<u>--</u>	<u>400,000</u>
	<u>\$ 253,310</u>	<u>\$ 599,462</u>

Interest Rate Risk - The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE E - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Receivable From:		
Patients	\$ 534,575	\$ 656,291
Medicare	522,384	410,677
Medicaid	140,294	68,386
Blue Cross	196,832	286,723
Workers Compensation	21,382	41,513
Others	<u>110,402</u>	<u>165,699</u>
	1,525,869	1,629,289
Less allowances for doubtful accounts and contractual adjustments	<u>329,000</u>	<u>335,000</u>
	<u>\$ 1,196,869</u>	<u>\$ 1,294,289</u>

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2016 and 2015 were as follows:

<u>Cost</u>	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
Land Improvements	\$ 297,885	\$ --	\$ --	\$ 297,885
Buildings	12,751,793	--	--	12,751,793
Fixed Equipment	720,095	--	--	720,095
Major Movable Equipment	<u>4,455,884</u>	<u>228,217</u>	<u>96,780</u>	<u>4,587,321</u>
	18,225,657	228,217	96,780	18,357,094
<u>Depreciation</u>				
Land Improvements	161,146	11,528	--	172,674
Buildings	5,005,076	489,888	--	5,494,964
Fixed Equipment	487,604	42,655	--	530,259
Major Movable Equipment	<u>3,467,773</u>	<u>409,877</u>	<u>84,070</u>	<u>3,793,580</u>
Total Depreciation	<u>9,121,599</u>	<u>953,948</u>	<u>84,070</u>	<u>9,991,477</u>
Depreciable Capital Assets, Net	<u>\$ 9,104,058</u>	<u>\$(725,731)</u>	<u>\$ 12,710</u>	<u>\$ 8,365,617</u>
Non-Depreciable Capital Assets:				
Land	<u>\$ 22,190</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 22,190</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 213,837	\$ 84,048	\$ --	\$ 297,885
Buildings	12,751,793	--	--	12,751,793
Fixed Equipment	693,480	26,615	--	720,095
Major Movable Equipment	<u>4,616,760</u>	<u>179,093</u>	<u>339,969</u>	<u>4,455,884</u>
	18,275,870	289,756	339,969	18,225,657
<u>Depreciation</u>				
Land Improvements	150,021	11,125	--	161,146
Buildings	4,493,960	511,116	--	5,005,076
Fixed Equipment	443,703	43,901	--	487,604
Major Movable Equipment	<u>3,242,881</u>	<u>564,861</u>	<u>339,969</u>	<u>3,467,773</u>
Total Depreciation	<u>8,330,565</u>	<u>1,131,003</u>	<u>339,969</u>	<u>9,121,599</u>
Depreciable Capital Assets, Net	<u>\$ 9,945,305</u>	<u>\$ (841,247)</u>	<u>\$ --</u>	<u>\$ 9,104,058</u>
Non-Depreciable Capital Assets:				
Land	\$ 22,190	\$ --	\$ --	\$ 22,190
Construction in Progress	<u>24,000</u>	<u>--</u>	<u>24,000</u>	<u>--</u>
	<u>\$ 46,190</u>	<u>\$ --</u>	<u>\$ 24,000</u>	<u>\$ 22,190</u>

NOTE G - NON-CURRENT LIABILITIES

A schedule of non-current liabilities for the years ended June 30, 2016 and 2015 follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>	<u>Current Portion</u>
Long-term debt:					
Note A	\$ --	\$ --	\$ --	\$ --	\$ --
Note B	3,555,845	--	610,300	2,945,545	242,490
Note C	<u>261,428</u>	<u>--</u>	<u>102,858</u>	<u>158,570</u>	<u>51,429</u>
Total long-term debt	3,817,273	--	713,158	3,104,115	293,919
Net pension liability	<u>1,967,695</u>	<u>396,476</u>	<u>--</u>	<u>2,364,171</u>	<u>--</u>
Total long-term liabilities	<u>\$5,784,968</u>	<u>\$ 396,476</u>	<u>\$ 713,158</u>	<u>\$5,468,286</u>	<u>\$ 293,919</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - NON-CURRENT LIABILITIES - Continued

	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-term debt:					
Note A	\$ 51,428	\$ --	\$ 51,428	\$ --	\$ --
Note B	3,765,412	--	209,567	3,555,845	198,697
Note C	<u>312,857</u>	<u>--</u>	<u>51,429</u>	<u>261,428</u>	<u>51,429</u>
Total long-term debt	4,129,697	--	312,424	3,817,273	250,126
Net pension liability	<u>--</u>	<u>1,967,695</u>	<u>--</u>	<u>1,967,695</u>	<u>--</u>
Total long-term liabilities	<u>\$4,129,697</u>	<u>\$1,967,695</u>	<u>\$ 312,424</u>	<u>\$5,784,968</u>	<u>\$ 250,126</u>

Note A - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified equipment items. The note with the City was non-interest bearing, however, interest had been imputed at a rate of 5.25%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 were being made to the City through June, 2015 when the note was paid in full. The note was collateralized by the equipment purchased (with a net book value of \$11,089).

Note B - In April of 2012, the City of Pocahontas incurred a promissory note payable to a local bank, for up to \$4,000,000. The note was issued to pay for a renovation and expansion project. Although the debt is in the name of the City of Pocahontas, the Hospital is responsible for all loan principal and interest payments. Under terms of the note, monthly interest payments were due through May, 2013. Combined principal and interest payments are being made beginning in June, 2013 and ending in May, 2028. The interest rate on the note is 3.75%, with an adjustment based on the Wall Street Journal prime rate plus .50% after 5 years and 10 years. The note is collateralized by all assets and revenues of the Hospital.

Note C - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified renovation and expansion costs. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 3.75%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 are being made to the City through July, 2020. The note is collateralized by the Hospital revenues.

The annual debt service on the notes is expected to require approximately 80% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$818,600 and \$1,023,900 respectively.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - NON-CURRENT LIABILITIES - Continued

Scheduled principal and interest payments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		Total
	Principal	Interest	
2017	\$ 293,919	\$ 106,627	\$ 400,546
2018	303,484	97,062	400,546
2019	313,100	87,446	400,546
2020	275,940	77,462	353,402
2021	282,019	67,098	349,117
2022 - 2026	1,579,934	165,652	1,745,586
2027	55,719	258	55,977
	<u>\$ 3,104,115</u>	<u>\$ 601,605</u>	<u>\$ 3,705,720</u>

The pension liability, as further described in Note H, represents an actuarial estimate of the Hospital's share of the Iowa Public Employee Retirement System (IPERS) unfunded pension liability.

NOTE H - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided by general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Hospital contributed 8.93% of covered payroll for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the Hospital contributed 9.84% of covered payroll, for a total rate of 16.40%.

The Hospital's contributions to IPERS for the year ended June 30, 2016 were \$330,970.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Hospital reported a liability of \$2,364,171 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's collective proportion was 0.047853%, which was a decrease of 0.001762% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Hospital recognized pension expense of \$198,041. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 35,026	\$ 2,792
Changes of assumptions	65,610	34
Net difference between projected and actual earnings on pension plan investments	--	207,196
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	5,134	41,122
Hospital contributions subsequent to the measurement date	<u>330,970</u>	<u>--</u>
	<u>\$ 436,740</u>	<u>\$ 251,144</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

The \$330,970, reported as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts, reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$(79,949)
2018	(79,949)
2019	(79,949)
2020	95,713
2021	<u>(1,240)</u>
	<u><u>\$(145,374)</u></u>

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	<u>\$ 4,230,694</u>	<u>\$ 2,364,171</u>	<u>\$ 788,807</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2016, the Hospital reported payables to IPERS' of \$15,218 for legally required employer contributions and \$ - 0 - for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE I - AFFILIATED ORGANIZATION

Trinity Health Systems (Trinity)

The Hospital has an operating agreement with Trinity Health Systems. Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Fees to Trinity for personnel and services	\$ <u>301,031</u>	\$ <u>289,079</u>

NOTE J - RELATED ORGANIZATION

Pocahontas Community Healthcare Foundation (Foundation) was formed to improve the healthcare status of the people in the area surrounding Pocahontas. It has elected to do so by raising funds to help support the mission of Pocahontas Community Hospital. The Foundation provides funds to the Hospital to pay for specified operating costs and for equipment. The Hospital provides funds to the Foundation to be used in physician recruiting. Management has determined that the economic resources held by the Foundation are not significant, therefore the Foundation is not discretely presented with these financial statements.

A summary of the Foundation's assets, liabilities, net position, and transactions with the Hospital as of and for the years ended June 30, 2016 and 2015 follows:

	<u>Unaudited 2016</u>	<u>Audited 2015</u>
Assets	\$ <u>86,887</u>	\$ <u>92,912</u>
Net Assets	\$ <u>86,887</u>	\$ <u>92,912</u>
Payments to Hospital	\$ <u>59,084</u>	\$ <u>34,690</u>
Received from Hospital	\$ <u>21,730</u>	\$ <u>18,000</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE K - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 67 active employees and one retiree currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial.

NOTE L - COMMITMENTS AND CONTINGENCIES

Rental Obligation

The Hospital has agreed to rent building space from the City of Pocahontas for approximately \$15,000 per year. This rented space is currently used for specialty clinic reception and for the home health/hospice offices.

Other Assets

The other assets represent funds advanced under agreements with healthcare professionals now practicing in the community. The agreements include commitments by the healthcare professionals to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Pocahontas Community Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Subsequent Events

The Hospital has evaluated all subsequent events through August 19, 2016, the date the financial statements were available to be issued.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE M - DEFICIT UNRESTRICTED NET POSITION

The Hospital had a deficit unrestricted net position at June 30, 2016, entirely due to the net pension liability and related deferrals of resources. Total net position remained positive.

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REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2016.

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	<u>\$ 10,354,013</u>	<u>\$ 12,750,000</u>	<u>\$ 2,395,987</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability

June 30,

	<u>2016</u>	<u>2015</u>
Hospital's proportion of the net pension liability	.047853%	.048233%
Hospital's proportionate share of the net pension liability	\$ 2,364,000	\$ 1,968,000
Hospital's covered-employee payroll	\$ 3,453,000	\$ 3,310,000
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	68.46%	59.46%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Hospital IPERS Pension Contributions
Year Ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 331,000	\$ 310,200	\$ 296,100	\$ 280,400
Contributions in relation to the statutorily required contribution	<u>(331,000)</u>	<u>(310,200)</u>	<u>(296,100)</u>	<u>(280,400)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered-employee payroll	\$ 3,679,000	\$ 3,453,000	\$ 3,310,000	\$ 3,203,000
Contributions as a percentage of covered-employee payroll	9.00%	8.98%	8.95%	8.75%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 254,500	\$ 202,500	\$ 181,800	\$ 157,400	\$ 143,800	\$ 131,000
<u>(254,500)</u>	<u>(202,500)</u>	<u>(181,800)</u>	<u>(157,400)</u>	<u>(143,800)</u>	<u>(131,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 3,098,000	\$ 2,867,000	\$ 2,657,000	\$ 2,448,000	\$ 2,357,000	\$ 2,288,000
8.21%	7.06%	6.84%	6.43%	6.10%	5.73%

POCAHONTAS COMMUNITY HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

* * *

SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 911,310	59.7%	\$ 885,060	54.3%
31 - 90	265,620	17.4	348,313	21.4
91 - 150	75,342	4.9	195,072	12.0
151 - 270	87,865	5.8	87,949	5.4
271 and over	185,732	12.2	112,895	6.9
	<u>1,525,869</u>	<u>100.0%</u>	<u>1,629,289</u>	<u>100.0%</u>
Allowance for doubtful accounts	141,000		175,000	
Allowance for contractual adjustments	<u>188,000</u>		<u>160,000</u>	
	<u>\$ 1,196,869</u>		<u>\$ 1,294,289</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning	\$ 175,000	\$ 125,000
Provision for bad debts	209,873	258,475
Recoveries of accounts previously written off	<u>318,020</u>	<u>309,761</u>
	702,893	693,236
Accounts written off	<u>561,893</u>	<u>518,236</u>
Balance, ending	<u>\$ 141,000</u>	<u>\$ 175,000</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2016</u>	<u>2015</u>
<u>Inventory</u>		
Medical and surgical	\$ 16,825	\$ 16,768
Pharmacy	68,229	58,482
Laboratory and radiology	<u>20,294</u>	<u>30,034</u>
	<u>\$ 105,348</u>	<u>\$ 105,284</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 21,144	\$ 23,213
Service contracts	<u>121,654</u>	<u>102,503</u>
	<u>\$ 142,798</u>	<u>\$ 125,716</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2016		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 251,200	\$ --	\$ --
Swing bed	--	--	130,687
	<u>251,200</u>	<u>--</u>	<u>130,687</u>
Other Nursing Services:			
Operating and recovery rooms	6,500	981,845	--
Emergency service	10,152	1,172,315	45
Central services and supply	46,751	112,114	5,678
Observation	--	90,696	--
	<u>63,403</u>	<u>2,356,970</u>	<u>5,723</u>
Other Professional Services:			
Emergency room physician	--	562,454	--
Anesthesiology	2,160	234,216	--
Laboratory	120,284	2,367,258	40,620
Blood administration	--	9,440	--
Radiology	41,689	2,200,519	8,595
Pharmacy	223,697	887,450	96,640
Chemotherapy	--	66,624	--
Electrocardiology	6,731	145,950	--
Physical therapy	10,036	469,182	32,580
Speech therapy	444	3,448	877
Respiratory therapy	59,921	278,644	27,296
Occupational therapy	4,613	127,424	19,924
Cardiac rehabilitation	--	141,750	--
Pulmonary rehab	--	23,808	--
Ambulance services	6,853	583,672	--
Industrial Health	--	25,287	--
Home Health Care	--	113,678	--
Hospice	25,000	478,364	--
Clinic services	--	65,572	--
	<u>501,428</u>	<u>8,784,740</u>	<u>226,532</u>
	<u>\$ 816,031</u>	<u>\$ 11,141,710</u>	<u>\$ 362,942</u>

See Independent Auditor's Report.

<u>2016</u>	<u>2015</u>
<u>Total</u>	<u>Total</u>
\$ 251,200	\$ 313,006
130,687	250,319
<u>381,887</u>	<u>563,325</u>
988,345	1,027,356
1,182,512	1,269,299
164,543	193,159
90,696	115,531
<u>2,426,096</u>	<u>2,605,345</u>
562,454	579,392
236,376	248,892
2,528,162	2,853,852
9,440	5,900
2,250,803	1,698,302
1,207,787	1,329,743
66,624	48,432
152,681	163,684
511,798	506,166
4,769	4,698
365,861	376,987
151,961	101,900
141,750	128,420
23,808	51,097
590,525	463,768
25,287	31,819
113,678	122,717
503,364	415,256
65,572	79,386
<u>9,512,700</u>	<u>9,210,411</u>
<u>\$ 12,320,683</u>	<u>\$ 12,379,081</u>

POCAHONTAS COMMUNITY HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2016</u>	<u>2015</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 12,320,683	\$ 12,379,081
Contractual adjustments	(2,267,426)	(2,347,187)
Provision for bad debts	(209,873)	(258,475)
Charity care	(13,681)	(6,062)
Employee discounts	(22,914)	(22,190)
	<u>\$ 9,806,789</u>	<u>\$ 9,745,167</u>
 <u>Other Revenue</u>		
Meals sold	\$ 42,472	\$ 39,448
Histories	1,828	1,785
Lifeline	15,334	18,805
Ambulance support	20,000	18,000
Rent income	29,425	21,707
Miscellaneous	<u>45,136</u>	<u>88,587</u>
	<u>\$ 154,195</u>	<u>\$ 188,332</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2016		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing administration	\$ 75,111	\$ --	\$ 424
Medical and surgical	1,061,611	--	161,287
	<u>1,136,722</u>	<u>--</u>	<u>161,711</u>
<u>Other Nursing Services</u>			
Operating and recovery rooms	227,605	--	84,126
Emergency service	106,432	--	45,061
Central services and supply	33,813	--	79,370
	<u>367,850</u>	<u>--</u>	<u>208,557</u>
<u>Other Professional Services</u>			
Emergency room physicians	--	--	--
Anesthesiology	--	--	--
Laboratory	300,660	--	300,654
Blood administration	--	--	10,783
Radiology	227,712	--	292,165
Pharmacy	--	--	268,276
Chemotherapy	6,257	--	--
Electrocardiology	--	--	--
Sleep studies	--	--	--
Physical therapy	32,184	--	12,748
Speech therapy	--	--	--
Respiratory therapy	78,014	--	16,946
Occupational therapy	--	--	42
Cardiac rehabilitation	113,479	--	60,098
Pulmonary rehab	23,860	--	3,315
Ambulance services	102,394	--	35,900
Industrial Health	54,081	--	10,597
Home Health Care	201,616	--	45,435
Hospice	146,479	--	128,483
Medical records	88,407	--	46,806
	<u>1,375,143</u>	<u>--</u>	<u>1,232,248</u>
<u>General Services</u>			
Dietary	153,091	--	97,847
Plant operations	158,662	--	235,408
Housekeeping	77,273	--	8,796
Laundry and linen	--	--	31,849
	<u>389,026</u>	<u>--</u>	<u>373,900</u>
<u>Fiscal and Administrative Services</u>	474,104	1,026,440	486,945
<u>Provision for Depreciation</u>	--	--	953,948
Total all departments	<u>\$ 3,742,845</u>	<u>\$ 1,026,440</u>	<u>\$ 3,417,309</u>

See Independent Auditor's Report.

<u>2016</u>		
<u>Professional Fees</u>	<u>Total</u>	<u>2015 Total</u>
\$ --	\$ 75,535	\$ 65,754
--	1,222,898	1,185,820
--	1,298,433	1,251,574
22,133	333,864	372,716
--	151,493	166,412
--	113,183	93,221
<u>22,133</u>	<u>598,540</u>	<u>632,349</u>
1,002,848	1,002,848	978,983
113,514	113,514	110,636
18,936	620,250	643,052
--	10,783	16,176
22,589	542,466	559,593
94,837	363,113	419,825
--	6,257	7,235
16,075	16,075	20,191
39,150	39,150	47,312
261,352	306,284	295,475
2,217	2,217	2,650
--	94,960	120,190
91,100	91,142	60,048
--	173,577	105,427
--	27,175	9,890
--	138,294	146,375
--	64,678	55,400
--	247,051	273,388
--	274,962	232,849
--	135,213	125,380
<u>1,662,618</u>	<u>4,270,009</u>	<u>4,230,075</u>
10,486	261,424	255,117
--	394,070	404,780
--	86,069	89,843
--	31,849	35,091
<u>10,486</u>	<u>773,412</u>	<u>784,831</u>
349,933	2,337,422	2,143,190
--	953,948	1,131,003
<u>\$ 2,045,170</u>	<u>\$ 10,231,764</u>	<u>\$ 10,173,022</u>

POCAHONTAS COMMUNITY HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Fiscal and Administrative:		
Salaries and wages	\$ 474,104	\$ 452,060
Professional fees	349,933	332,231
Recruitment fees	57,761	19,973
Dues	18,997	24,467
Telephone	9,500	3,526
Supplies and other expense	<u>307,283</u>	<u>290,159</u>
	1,217,578	1,122,416
Employee Welfare:		
Payroll taxes and benefits	476,207	426,716
Group health insurance	522,098	479,326
Other employee benefits	<u>28,135</u>	<u>23,641</u>
	1,026,440	929,683
Insurance:		
Liability and property insurance	<u>93,404</u>	<u>91,091</u>
	<u>\$ 2,337,422</u>	<u>\$ 2,143,190</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Acute Care:					
Admissions	135	155	147	163	191
Discharges	137	153	147	161	192
Patient Days	395	472	483	461	514
Average Length of Stay	2.9	3.1	3.3	2.9	2.7
Average Occupied Beds	1.1	1.3	1.3	1.3	1.4
Swing Bed:					
Admissions	43	74	71	61	103
Discharges	43	72	71	61	105
SNF Days	352	630	422	441	811
ICF Days	15	23	45	77	83
Combined Average Occupied Beds	2.1	3.1	2.6	2.7	3.9
Outpatient Occasions of Service	21,742	23,672	23,429*	27,745*	32,904
Home Healthcare Visits	1,967	1,903	2,051	1,807	1,768

* - Method of accumulating occasions changed with computer system transition during 2013 year.

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statements of Net Position
June 30,

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 1,006,059	\$ 1,481,835
Receivables	1,197,392	1,296,664
Inventory	105,348	105,284
Prepaid expense	142,798	125,716
Estimated third party payor settlements	--	--
Internally designated assets	<u>253,310</u>	<u>250,126</u>
Total current assets	2,704,907	3,259,625
Other Assets:		
Designated and restricted assets, net	--	349,336
Capital assets, net	8,387,807	9,126,248
Other assets	<u>190,493</u>	<u>117,951</u>
Total assets	11,283,207	12,853,160
Deferred Outflows of Resources - Pension	<u>436,740</u>	<u>421,623</u>
Total assets and deferred outflows of resources	<u>\$ 11,719,947</u>	<u>\$ 13,274,783</u>
Current Liabilities:		
Current maturities	\$ 293,919	\$ 250,126
Accounts payable	200,864	168,384
Accrued expenses	474,613	441,769
Accrued interest	7,669	--
Estimated third party payor settlements	<u>299,000</u>	<u>987,000</u>
Total current liabilities	1,276,065	1,847,279
Long-Term Liabilities:		
Long-term debt, net	2,810,196	3,567,147
Net pension liability	<u>2,364,171</u>	<u>1,967,695</u>
Total liabilities	6,450,432	7,382,121
Deferred Inflow of Resources - Pension	251,144	765,432
Net Position	<u>5,018,371</u>	<u>5,127,230</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 11,719,947</u>	<u>\$ 13,274,783</u>

See Independent Auditor's Report.

Not Restated		
2014	2013	2012
\$ 1,422,779	\$ 1,089,147	\$ 675,240
1,391,839	1,435,200	1,641,622
108,128	110,426	105,536
101,400	93,973	135,253
--	473,000	--
397,662	422,172	595,835
3,421,808	3,623,918	3,153,486
70,269	--	217,786
9,991,495	10,813,986	7,052,261
110,197	89,078	98,907
13,593,769	14,526,982	10,522,440
--	--	--
<u>\$ 13,593,769</u>	<u>\$ 14,526,982</u>	<u>\$ 10,522,440</u>
\$ 294,485	\$ 303,976	\$ 224,709
304,197	1,220,397	640,874
400,870	392,754	358,505
--	12,448	22
838,000	--	165,000
1,837,552	1,929,575	1,389,110
3,835,212	4,142,287	686,263
--	--	--
5,672,764	6,071,862	2,075,373
--	--	--
7,921,005	8,455,120	8,447,067
<u>\$ 13,593,769</u>	<u>\$ 14,526,982</u>	<u>\$ 10,522,440</u>

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Patient Service Revenue	\$ 12,320,683	\$ 12,379,081
Adjustments to Patient Service Revenue	<u>(2,513,894)</u>	<u>(2,633,914)</u>
Net Patient Service Revenue	9,806,789	9,745,167
Other Revenue	<u>154,195</u>	<u>188,332</u>
Total Revenue	9,960,984	9,933,499
Expenses	<u>10,231,764</u>	<u>10,173,022</u>
Operating Income (Loss)	(270,780)	(239,523)
Non-Operating Revenues (Expenses), Net	<u>147,221</u>	<u>(96,824)</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	(123,559)	(336,347)
Capital Grants and Contributions	<u>14,700</u>	<u>14,291</u>
Increase (Decrease) in Net Position	<u><u>\$ (108,859)</u></u>	<u><u>\$ (322,056)</u></u>

See Independent Auditor's Report.

	Not Restated	
2014	2013	2012
\$ 12,174,428	\$ 11,347,753	\$ 12,542,195
(2,721,959)	(1,891,191)	(3,080,889)
9,452,469	9,456,562	9,461,306
182,523	130,671	109,769
9,634,992	9,587,233	9,571,075
10,078,663	9,637,975	9,305,715
(443,671)	(50,742)	265,360
(102,709)	37,759	32,352
(546,380)	(12,983)	297,712
12,265	21,036	28,496
\$(534,115)	\$ 8,053	\$ 326,208

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of
Pocahontas Community Hospital
Pocahontas, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pocahontas Community Hospital as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated August 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pocahontas Community Hospital's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pocahontas Community Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pocahontas Community Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 16-I-A.

To the Board of Trustees of
Pocahontas Community Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pocahontas Community Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Part II of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

Pocahontas Community Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Pocahontas Community Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gronewald, Bell, Hykum + Co. P.C.
Atlantic, Iowa
August 19, 2016

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2016

PART I - SIGNIFICANT DEFICIENCIES

16-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings and Responses - Continued
Year ended June 30, 2016

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

16-II-A Certified Budget: As a component unit of the City of Pocahontas, the Hospital is required to annually (in February) provide a copy of its summary budget to the City, to allow its inclusion in the official City budget documents. The Hospital complied with its requirement and provided a copy of its budget to the City by February, 2015.

Recommendation: We recommend that the Hospital continue to file its summary budget with the City of Pocahontas by February and retain documentation that it has done so.

Response: We will continue to meet our obligation of filing our original budget with the City in future years.

Conclusion: Response accepted.

16-II-B Questionable Expenditures: During the audit, we noted certain expenditures approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expenditures were as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Wild Rose	Employee Recognition Dinner	\$ 3,126
Commerce Bank	Invoices lacking detail on credit card purchases	1,149

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

During the audit, we noted that a few of the vendor invoices attached to the credit card bills paid, lacked specific detail of all the items purchased. Vendor invoices listing the details of purchases should be attached to substantiate public purpose of the charges.

Recommendation: We recommend that the Board continue to document the public purpose of expenditures for employee recognition dinners before authorization is given. We also recommend that the Board require full substantiation on credit card charges before authorization for payment is given.

Response: The recognition dinner expenditure is considered part of the employee benefit package and the Board feels they meet the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979. The Board will assure that proper substantiation of credit card charges is attached before approving.

Conclusion: Responses accepted.

16-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings and Responses - Continued
Year ended June 30, 2016

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING - Continued

16-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Wood's Supermarket Kim Wood is a Board member and a part owner of the store	Grocery items	<u>\$ 11,569</u>

The transactions with Wood's Supermarket equal or exceed \$2,500 (Code Section 362.5(3)(k)), however, purchases from local businesses are necessary for the operation of the Hospital in Pocahontas, Iowa. The Board considered and approved the purchase of supplies from this local merchant.

Recommendation: The Board should continue to monitor purchases from board member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for and approval of such transactions should be documented.

Response: The Board will continue to monitor and document reasons for and approval of transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

16-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

16-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

16-II-G Financial Condition: The Hospital has a deficit in unrestricted net position of \$265,321 at June 30, 2016 as a result of recording its share of the IPERS net unfunded pension liability.

Recommendation: The Hospital management should remain aware of this deficit, and its cause, and comply with IPERS plan to reduce the deficit over a period of years.

Response: The deficit was the result of recognizing the Hospital's proportionate share of IPERS' net pension liability. The Hospital realizes this liability is not due and payable immediately. Rather the pension liability will be paid down over a period of time with the Hospital's future employer share of IPERS contributions.

Conclusion: Response accepted.

* * *